

Video Transcript: Changing the Compensation Discussion from Cost to Value

Simon Patterson:

Pearl Meyer has developed an index, which we call the CEO Value Index. The purpose of that is to change the conversation from cost to value. When you look at newspaper articles about executives, it most of the time tends to focus on the top line. How much money did he or she make over a period of time? But in many ways, the conversation shouldn't be about that. It should be about, what did he or she do for the shareholders over the same period of time?

In order to simplify that conversation, what we did was we created one number, which is how much do all the shareholders get for every one pound or dollar paid to the chief executive. To do that, what we do is we take a four-year period, and we calculate over the four years how much all the shareholders made in terms of changes in value, dividends paid, and share buybacks. Then, divide into that number all the money the chief executive made in terms of take-home pay. That's all the salary, all the bonus, and two-years worth of vested long-term incentives.

When you divide the compensation into the shareholder value created, you get this index.

Now, that index is an interesting number. What it tells you is really how productive is an executive for the shareholders, all the shareholders. With that number, you can then do a lot of very interesting analysis. You can look at whether people who run big companies or medium-sized companies are better value for money. You can look at the degree to which chief executives who've been brought in from the outside are more productive for their shareholders than those who've been promoted from within. You might look at how the chairman of the remuneration committee has been more or less successful at delivering value to the shareholders for the amount of money which they have, if you will, allowed the chief executive to be paid.

